

AGENDA ITEM 4

FOURTH MEETING OF THE ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING

KUALA LUMPUR, 3RD AUGUST 2005

REVIEW OF ISSUES ARISING FROM THE REPORT OF THE THIRD MEETING OF THE GROUP

Background

The report of the Third meeting is attached.

Issues

A major rationale for the Board is the provision of business advice on how best can business contribute to promoting and supporting capacity building initiatives. The Board plays a most useful role in developing views and principles that can ABAC and PECC can take into account this area of activity.

The following are key matters arising from the Third meeting and on which advice would be particularly valuable:

1. is the work being undertaken by ABAC/PECC on volatile capital flows a sufficient response to concerns on this matter ?

Note: ABAC has commissioned a report on possible trigger mechanisms

2. what capacity building measures might most usefully to followed to encourage/support economies to liberalise their financial systems ?
3. what are the key recommendations arising from the Tokyo June bond market conference and what more capacity building initiative/s is/are most likely to lead to positive results?

Note: A review of the conference will be considered under Item 5 of the Agenda and this question should be an essential focus of that review

4. how can ABAC/PECC usefully contribute to the APEC dialogue on remittances ?

Note: A report on the latest dialogue is scheduled under Item 9 and this question could be considered then

5. how should ABAC/PECC best mobilise private sector specialists to support APG training on and promulgation of FATF recommendations in regard to business sectors concerned with high value funds, such as brokers, jewellers, real estate agents, et al ?

Note: responses to this will be relevant to Item 11 of the Agenda

6. relationships with SEACEN have proven to be very constructive – see the program for Item 6 on the symposium on 4th August; can/should this relationship be deepened ?

Note: this issue can be considered under Item 6 of the Agenda

7. how should the Advisory Board best respond to the proposal by Dr. Li of AFDC, that capacity building programs be focused on solving problems ? – as perhaps distinct from a focus on regulatory philosophy and training on the intent of specific regulations ?
8. has the Advisory Board any views on intensifying ABAC/PECC links with APEC Finance Ministerial processes?

Recommendations

- Provide views on issues raised above, in particular on numbers **1, 2, , 7 and 8**, noting that other issues will be considered separately at this meeting

Coordinator

19th July 2005

ATTACHMENT**ADVISORY GROUP ON APEC FINANCIAL SYSTEM CAPACITY BUILDING****REPORT OF THIRD MEETING, BEIJING, 10TH MAY 2005**

The meeting, held at the ShangriLa Kerry Centre, Beijing, was well attended, and included ABAC members and staffers and the Secretariat, representatives from China PECC and China APEC Development Council and representatives from APEC Finance and Development Centre, Shanghai. The Coordinator of the PECC Finance Forum was represented by Mr. Ken Waller; BIS and the World Bank sent apologies for non-attendance.

The chairman, Mark Johnson, ABAC Australia, welcomed members to the meeting. Mr. Waller briefly outlined developments in the Group's work since the second meeting in Auckland and the objectives of the Group, noting that a number of proposals would be presented to the meeting which he believed conformed with those objectives.

Mr. Johnson introduced the ABAC Finance Working Group's contribution to the APEC Mid-term Review, under the heading "The Way Forward", noting that the review highlighted the key financial challenges in the region over the next decade or so. Mr.

Benanav, ABAC US, commented on two papers to do with the liberalisation of trade in financial services and impediments to investment in services, noting the importance of providing input to promote the WTO Round negotiations. The papers drew on the Dietrich report and presented business perspectives on what measures ought to be taken to liberalise trade and investment in financial sectors. They were presented as a check-list, representing best practices in four financial sectors, and a check-list of the most impediments that businesses believed should be addressed in furthering liberalising in financial services. These had been well researched, they were balanced and ABAC members had been consulted and had agreed the proposals. They would be sent to Leaders and Finance Ministers and ABAC would present them in Geneva in June.

Mr. Johnson, noted that the papers represented a top-down approach, they should contribute to shaping a policy framework for negotiators. He noted that the proposals were aspirational and that there was a deep inter-relationship in liberalising across financial sectors. Discussions during the preparation of the papers revealed concerns that insufficient attention was given to adjustment processes to accompany financial reforms. As a consequence, concerns relating to transitional policies, including step by step approaches being part of the reform process, were incorporated in the papers and these would be reflected in ABAC's reports and in ABAC's presentations in Geneva.

The papers were well received by the Advisory Group. There was some discussion over the different approaches to regulatory supervision in APEC economies, with members noting that over time convergence to a harmonised approach would be beneficial to financial groups operating in the region.

The Chairman noted that ABAC had not been too successful in relating to the APEC Finance Ministers' agenda, an issue on which ABAC had to make progress. Others endorsed this need as a priority for ABAC. Dr. Twatchai Yongkittikul, ABAC Thailand, noted that ABAC had successfully raised the level of contact with Leaders through informal discussions and this was a possible model for ABAC Finance to consider.

Mdm. Wang Lili noted that ABAC needed to put more emphasis on financial risk and expressed concern that capital flows far exceeded trade flows. She was pleased that the ABAC's Finance input to the Mid-Term Review reflected concerns relating to transitional policies.

Summarising this part of the meeting, Mr. Johnson noted general support for ABAC Finance recommendations on services and investment liberalisation; he observed that APEC itself should

aim to become a more effective lobby group and so should ABAC. The Geneva meeting in June was a real opportunity to ABAC to present views and he encouraged ABAC members to participate. Mr. Benanav strongly endorsed the point that it was important that ABAC push governments to liberalise.

Mr. Kanzaki, ABAC Japan, introduced the proposal for the Bond market conference to be held in Tokyo in June in association with ADBI, noting that it would provide an opportunity to hear the views of market makers and regulators on the quality of the domestic bond market environment in various APEC economies. He invited members to attend this important conference. Mr Johnson noted that this was flagship work for ABAC and progress was being made in capital market deepening. Mr. Benanav strongly endorsed the questionnaire that had been sent to market makers, noting that their responses would reflect a realistic base for the conference. He noted the importance of the conference being interrogative and that the report should reflect a wholly realistic assessment of progress, or lack of it, in various markets

Mdm Wang noted that given the risks of volatile short-term capital flows, there was urgency in developing long term bond markets. The chairman observed that bond markets were at the centre of our capacity building initiatives and that ABAC is at an interesting juncture in deciding how much more it could do to promote bond markets. We have worked effectively with IFIs and our work is flowing through the information channels to private sector participants. We would need to decide after the Tokyo conference what more ABAC can contribute. Mr. Benanav thought it important that ABAC send clear messages to Finance Ministers on what the private sector thinks about progress – we have a responsibility to ensure that Ministers fully understand the reality of bond market developments in the region. Dr Li Kouqing noted that AFDC had undertaken training programs on regional bond markets and that there was a strong need for public private partnerships in this sphere of capacity building.

Mr. Waller introduced a paper on financial remittances, noting that the World Bank had approached ABAC to support an APEC Policy Dialogue in Bangkok later in May. He observed that remittance flows far exceeded official aid flows, were an extensive part of external financing for many developing economies and that authorities were increasingly concerned to bring them into the formal market, not least to minimise the prospect of illegal movement of funds. Mr. Benanav and Dr. Twatchai Yongkittikul noted that many people were being ripped off by players in the remittance markets who charged extremely high prices for their services, making this a highly inefficient payments mechanism. While banks did not have much experience, the symposium was a good opportunity to learn. It was agreed that ABAC participation fitted squarely into the objectives set by the Advisory Group and that ABAC should maintain a continuing interest in the subject.

A proposal for a public private workshop/symposium to support measures to deal with anti money laundering and to combat terrorist funding was introduced by Mr. Waller. He noted that this subject had been on ABAC's agenda for some time and that work had continued with APG Sydney to develop the proposal. In turn, APG had been in contact with the UN, the World Bank, the ADB, the IMF and others in developing the proposed workshop, proposed to be held in Melbourne.

Mr. Johnson noted that APG was part of a world-wide regional network funded by Australia and by other economies and that it had significant training responsibilities to ensure economies were equipped to implement laws and regulations to outlaw illegal financing activities. APG required private sector support in building bridges with business sectors involved in moving high value funds, including those institutions outside the primary financial groups, such as brokers, jewellers, real estate agents, gold and precious metal merchants. Members strongly endorsed ABAC involvement, noting the problems arising from differing laws on reporting requirements of financial transactions. However, members wondered whether Melbourne was the best location for training of the type envisaged and whether other centres, perhaps in Asia, might be more relevant to

ensure deep participation by regulators in the Asian region and by private sector might be more appropriate. It was agreed that the proposal be pursued further with APG.

The proposal to continue to work on the implementation of Basel 2 was introduced by Mr. Waller who outlined the work arising from the Santiago workshop last year and the development, since then, of some principles that might be considered cross-border implementation of Basel 2. He noted that a set of principles, developed by Mr Manual Mendez of BBVA, Madrid, had been sent to BIS, the Asian Bankers Association and to SEACEN (South and East Asia Central Bankers Training Institute) in Kuala Lumpur) and that SEACEN had agreed to a proposal to run a symposium jointly with ABAC and PECC on the subject at the time of the third ABAC meeting in KL, on 4th August. Mr Johnson noted that banks were now deeply involved in implementing Basel 2, and the symposium was timely. Ms. Whaley observed that ABAC/PECC work on the subject had started at the Sydney symposium in May 2002 and this proposal was an extension of a major effort in capacity building. Members agreed to the symposium and to promote involvement in it.

Dr. Li Kouqing outlined the objectives of APEC Finance and Development Program, AFDP, when it was established by the Chinese government and the World Bank in 2003. He noted the purpose was to strengthen institutional capacities in the region, to undertake research and to conduct high level forums. Subjects covered since its inception included capital market developments, regional bond markets, SME financing and corporate governance in financial systems. AFDP was judged to be effective and as a consequence the Program had been formalised into a Centre in 2004 with MOF providing financial support and the in-kind support from the World Bank.

Dr Li noted that AFDC will continue the same basic work but at a more intensive level of activity with more workshops, research activities and forums. He noted that the Centre had participated in the Forum for East Asia and Latin America Cooperation which focused on China's fiscal management systems and that it would be involved in a workshop on banking reforms in ASEAN+3 later in May. He noted that the Centre intended to work with the APEC Study Centre in Melbourne on risk management in banking. AFDC will do further work on government bond markets later this year and cooperate with the Ministry of Finance and Economics of Korea in this work and on credit guarantees. Its research programs involved small activities costing up to \$10, 000 and funding for research was being discussed with MOF and the World Bank.

Dr. Li noted that high level forums, which were planned on two-year cycle, provided platforms for disseminating research and links with the private sector. AFDC wished to co-sponsor work with ABAC and valued ABAC support in designing training workshops and programs and research activities.

Research undertaken by the Centre pointed to ongoing capacity building needs in many areas. He observed that support for SME was a major issue and that training was part of the solution, particularly in financing matters. While funding for individual SMEs might be limited, profitability was often low and the risks high. Many economies were looking to establish some form of credit guarantee schemes and AFDC would be running a workshop on this subject later in the year; the objective would be to train people to know procedures for seeking funding.

On a broader level, Dr. Li proposed that training programs seek to focus on solving problems. People came to programs with many questions; the objective should be that they leave with ways of finding the answers. Training should inevitably involve follow-up work after a particular workshop. He recommended that ABAC consider a problem solving approach. He asked that ABAC help AFDC design programs which built on this approach and that ABAC provide advice on consultants or business experts who could provide answers.

Dr. Li confirmed that AFDC courses usually involved a small proportion of Chinese nationals and that the majority of people came from government departments or agencies in the APEC region. The faculty for training courses involves academics and overseas experts, including from IFIs and from business, and people drawn from the Shanghai National Accounting

Institute (SNAI). SNAI had been selected by MOF as the institution to run the AFDP because of its major role is to provide continuing high level education for professionals – seen as the major objective of AFDP, and now for AFDC. SNAI has a faculty team of 20 professors and associate professors and 100 support staff so it has a strong administrative base to support training programs and workshops. In closing, Dr. Li expressed the strong hope that AFDC and ABAC and PECC would continue to cooperate.

Mr. Johnson drew attention to the PECC Council meeting and programs, including the PECC Finance Forum, to be held in Seoul, on 6/7th September.

In “other business”, members noted the importance of improving links with the APEC Finance Ministerial processes and leveraging off relevant APEC structures, concerns about continuing work on capital flows and the significant monitoring deficiencies in these activities.

Mr. Johnson thanked members and Dr. Li for their contribution to a very informative meeting and to ABAC China for the excellent arrangements for the meeting.

Ken Waller
Coordinator, Advisory Group

16th May 2005